

SUMMARY ANALYSIS OF AMENDED BILL

Author: Lockyer Analyst: Garnier Bill Number: SB 519

Related Bills: _____ Telephone: 845-5322 Amended Date: 2-23-98

Attorney: Doug Bramhall

Sponsor: _____

SUBJECT: Conformity to Certain Provisions of the Federal Taxpayer Relief Act of 1997 and 1997 Tax Law Clean-Up

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED 2-6-98 STILL APPLIES.

☒ OTHER - See comments below.

SUMMARY OF BILL

This bill would conform to several provisions of the federal Taxpayer Relief Act of 1997 and make technical clean-up corrections to various legislation passed in 1997. The changes purposed by this bill are:

1. Repeal Alternative Minimum Tax Installment Method Adjustment for Farmers.
2. Termination of Suspense Accounts for Family Farming Corporations.
3. Survivor Benefits of Public Safety Officers Killed in the Line of Duty.
4. Use of Certain Appraisals to Establish Amount of Disaster Loss.
5. Treatment of Livestock Sold on Account of Weather-Related Conditions.
6. Abatement of Interest on Underpayments by Taxpayers in Presidentially-Declared Disaster Areas.
7. Authority to Postpone Certain Tax-Related Deadlines by Reason of Presidentially-Declared Disaster.
8. Simplified Taxation of Earnings of Pre-Need Funeral Trusts.
9. Small Business Stock (Rollover of Gain).
10. Modifications of Rules for Real Estate Investment Trusts.
11. Repeal of 30% Gross Income Test for Regulated Investment Companies.
12. Qualified Subchapter S Subsidiary Tax Subject to Estimated Tax Payments.
13. 1997 Clean Up Provisions.
14. Waiver of Estimated Tax Penalty.

DEPARTMENTS THAT MAY BE AFFECTED:

____ STATE MANDATE

____ GOVERNOR'S APPOINTMENT

Board Position:

☐ S ☐ O
☐ SA ☐ OUA
☐ N ☐ NP
☐ NA ☐ NAR
☒ X PENDING

Agency Secretary Position:

☐ S ☐ O
☐ SA ☐ OUA
☐ N ☐ NP
☐ NA ☐ NAR
DEFER TO _____

GOVERNOR'S OFFICE USE

Position Approved _____
Position Disapproved _____
Position Noted _____

Department/Legislative Director
Johnnie Lou Rosas

Date
3/6/98

Agency Secretary

Date

By:

Date:

SUMMARY OF AMENDMENTS

The **February 13, 1998, amendment** added a conformity provision that would allow a taxpayer affected by a Presidentially-declared disaster an extension up to 90 days to perform an act (such as filing a tax return) if the Franchise Tax Board extends the filing period, added a 1997 clean-up provision affecting the election of a manufacturing enhancement area hiring credit, and made other technical changes. The **February 23, 1998, amendment** made several technical changes to the bill. This analysis discusses the additional disaster area relief, the clean-up legislation to the manufacturing enhancement area hiring credit and the technical changes. This analysis also revises the revenue estimate to reflect the correct operative dates of the provisions of this bill. The remainder of the department's February 6, 1998, analysis still applies.

AUTHORITY TO POSTPONE CERTAIN TAX-RELATED DEADLINES BY REASON OF PRESIDENTIALLY-DECLARED DISASTER.

SPECIFIC FINDINGS

Federal law provides that in the case of a taxpayer determined to be affected by a Presidentially-declared disaster, the Secretary of the Treasury may specify that, for a period of up to 90 days, certain taxpayer deadlines (including, but not limited to, filing a return) are postponed. The deadlines that may be postponed are the same as those postponed by reason of service in a combat zone. The provision does not apply for purposes of determining interest on any overpayment or underpayment. This provision applies to any period for performing an act that did not expire before August 5, 1997.

California law provides that the Franchise Tax Board may grant an extension up to six months to file a return. California law also is conformed to the statute which provides postponement of certain tax-related deadlines by reason of service in combat zones.

This bill would conform California law to federal law as it relates to the postponement of certain tax-related deadlines with the same effective date, with a substitution of the "Franchise Tax Board" for the "Secretary of the Treasury".

MANUFACTURING ENHANCEMENT AREA (MEA) HIRING CREDIT CLEAN-UP

PROGRAM HISTORY/BACKGROUND

AB 1040 (Stats. 1997, Ch. 605) removed the election provision from the Los Angeles Revitalization Zone (LARZ) sales or use tax credit, the Local Agency Military Base Recovery Area (LAMBRA) sales or use tax credit, and the LAMBRA hiring credit and replaced each with a provision limiting the taxpayer to one credit with respect to qualified property or employees that qualify for the specified credits.

SB 200 (Stats 1997, Ch. 609) contained two separate MEA hiring credit provisions: one contained credit election language and was intended to become effective only if AB 1040 did not enact the removal of the credit elections from the other economic development area hiring credits; the second contained language to limit taxpayers to only one credit and was intended to become effective if AB 1040's changes became effective. The intent for SB 200 was to mirror any changes made

by AB 1040. However, because of a drafting error, SB 200 did not enact the changes in AB 1040. Thus, while AB 1040 removed the credit election from all other economic development area credits, SB 200 added an election provision to the MEA hiring credit.

SPECIFIC FINDINGS

Existing state law provides a hiring credit for taxpayers conducting business activities within the manufacturing enhancement area (MEA) equal to a specified percentage of the cost of qualified wages paid or incurred with respect to certain employees. This credit requires the taxpayer to make an election, on the original return, choosing one credit if the expenditure qualifies the taxpayer for more than one credit.

This bill would remove the election provision from the MEA hiring credit and replace it with a provision limiting the taxpayer to one credit with respect to qualified wages.

TECHNICAL AMENDMENTS

The **February 13, 1998 amendment** made 20 technical amendments to the bill. Nine of the changes are grammatical, six changes clarify bill language and five changes clarify the effective dates of the changes respective provision.

The **February 23, 1998, amendment** made nine technical amendments to the bill. Three of the changes are grammatical, one change clarifies an effective date and five changes correct cross references.

FISCAL IMPACT

Departmental Costs

The provisions of this bill would not significantly impact the department's costs.

Tax Revenue Estimate

The revenue is revised to reflect the 1997 effective dates and to assume fast-track enactment to occur prior to April 1, 1998. The February 6, 1998, estimated revenue using a January 1, 1998 effective date for all provisions, all provisions affecting revenue, item 2 Termination of Suspense Accounts for Family Farming Corporations have an effective date in 1997.

The impact from the provisions of this bill is estimated as follows:

Effective Income/Taxable Years After January 1, 1997 Assumed Enactment Prior to April 1, 1998						
Provision	Personal Income Tax (in millions)			Bank & Corporation Tax (in millions)		
	1997-8	1998-9	2001-0	1997-8	1998-9	2001-0
AMT & Farm. Install.Sales	(\$1)	(\$1)	(\$1)	(\$1)	(\$1)	(\$1)
Fam. Farm Suspense Accts	---	---	---	b/	\$1	\$1
Pub.Officers Surv.Ben.	a/	a/	a/	---	---	---
Disaster Losses	a/	a/	a/	a/	a/	a/
Livestock- Disaster Areas	a/	a/	a/	a/	a/	a/
Abate Int.-Disaster Areas	a/	---	---	---	---	---
Funeral Trusts	b/	b/	b/	---	---	---
Sm.Bus.Stock(Rollover)	(\$2)	(\$4)	(\$5)	---	---	---
Modify Rules for REITS	---	---	---	c/	c/	c/
Repeal 30% Inc. Test	d/	d/	d/	d/	d/	d/
Totals	(\$3)	(\$5)	(\$6)	(\$1)	\$0	\$0

a/ Negligible loss less than \$250,000

b/ Negligible gain less than \$250,000

c/ Minor loss less than \$500,000

d/ Unknown minor net gain or loss depending on relative tax rates of entity vs. shareholders.

The 1997 clean-up provisions have no revenue impact. The provisions are either technical in nature or have been accounted for in a analysis of an enacted bill.

Revenue impacts above were based on federal projections for these provisions in the Taxpayer Relief Act of 1997 in conjunction with available state data.

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

BOARD POSITION

Pending.